

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Genesee County Land Bank	County Genesee
Audit Date September 30, 2006	Opinion Date December 15, 2006	Date Accountant Report Submitted to State: 3/13/2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations


You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
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The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. CPAs			
Street Address 4468 Oak Bridge Drive	City Flint	State MI	ZIP 48532
Accountant Signature 			

**GENESEE COUNTY LAND BANK
AUTHORITY**

Flint, Michigan

**Annual Financial Statements
and Auditors' Report**

September 30, 2006

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4468 Oak Bridge Drive
Flint, MI 48532
Phone (810) 732-3000 / (800) 899-4742
Fax (810) 732-6118

Members of the Board of Directors and Administration

Board of Directors

Dan Kildee

Richard Hammel

Ted Hammon

Linda Barber

Raynetta Speed

Carolyn Sims

Chairperson

Vice Chairperson

Treasurer

Secretary

Trustee

Trustee

Administration

Amy Hovey

Paul McShane

Executive Director

Chief Financial Officer



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Fax (810) 732-6118

Independent Auditors' Report

Board of Directors
Genesee County Land Bank Authority

We have audited the accompanying financial statements of the business-type activities of the Genesee County Land Bank Authority as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the ten months then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

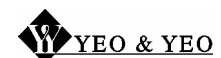
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Genesee County Land Bank Authority at September 30, 2006 and 2005 and the changes in financial position and cash flows, thereof for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Yeo & Yeo, P.C.

Flint, Michigan
December 15, 2006





Management's Discussion and Analysis

As management of the Genesee County Land Bank Authority, we offer readers of the Genesee County Land Bank Authority's financial statements this narrative overview and analysis of the financial activities of the Genesee County Land Bank Authority for the fiscal year ended September 30, 2006. The Authority holds and owns in its name any property acquired by it or conveyed to it by the state, a foreclosing governmental unit, a local unit of government, an intergovernmental entity created under the laws of the State of Michigan, or any other public or private person, including, but not limited to, tax reverted property and property with or without clear title. A Land Bank Authority may hold, control, manage, maintain, operate, repair, lease as lessor, secure, prevent the waste or deterioration of, demolish, and take all other actions necessary to preserve the value of the property it holds or owns.

Financial Highlights

- The Genesee County Land Bank Authority is a public body corporate organized pursuant to the Michigan Land Bank Fast Track Act, 2003 P.A. 258, MCL 124.751 – 124.774 and an Intergovernmental Agreement entered into between the Michigan Land Bank Fast Track Authority and the Treasurer of the County of Genesee, Michigan, dated December 7, 2004.
- Upon incorporation of the Genesee County Land Bank Authority, all tangible and intangible real and personal assets of the Genesee County Land Reutilization Council, Inc. were transferred to the Genesee County Land Bank Authority by Quitclaim Deed and by Bill of Sale, Transfer and Assignment executed on behalf of the Genesee County Land Reutilization Council by its Chairperson/Director.
- The Genesee County Land Bank Authority relies on two main revenue sources to fund its core operations. The first being funds provided by Genesee County through the Land Reutilization Fund managed by the Genesee County Treasurer. The second is the sale of property held by the Genesee County Land Bank Authority.
- In March of 2006 the Genesee County Land Bank Authority acquired the south portion of property commonly known as the Great Lakes Technology Center located at 4400 S. Saginaw St. Flint, MI. This property includes two buildings with over 500,000 square feet of office, retail and mixed use space and has a State Equalized Value of over \$11,000,000.
- The assets of the Genesee County Land Bank Authority exceeded its liabilities at the close of the fiscal year by \$10,709,061 (net assets). Of this amount, a deficit of (\$536,915) in unrestricted net assets occurred due to operational shortfalls.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Genesee County Land Bank Authority's basic financial statements. The Genesee County Land Bank Authority's basic financial statements are comprised of government-wide financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Genesee County Land Bank Authority's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the Genesee County Land Bank Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Genesee County Land Bank Authority is improving or deteriorating.

The statement of activities presents information showing how the authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., installment property sales).

Proprietary funds. The Genesee County Land Bank Authority maintains a single proprietary fund.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as part of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a authority's financial position. In the case of the Genesee County Land Bank Authority, assets exceeded liabilities by \$10,709,061 at the close of the fiscal year.

By far the largest portion of the Genesee County Land Bank Authority's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Genesee County Land Bank Authority uses these capital assets to provide services; consequently, these assets are not available for future spending.

In 2006, the Genesee County Land Bank Authority acquired a major piece of property as part of a joint effort with the County of Genesee and the Genesee Regional Chamber of Commerce commonly known as the south portion of the Great Lakes Technology Center located at 4400 S. Saginaw St. Flint, Michigan. This property includes two buildings with over 500,000 square feet of office, retail and mixed use space. This property was acquired from its owners in conjunction with an agreement with General Motors Corp. who had a controlling interest in the property for a fee of \$10. The property was booked at its State Equalized Value of \$11,109,300 as contributed real estate. As part of the joint effort, the County of Genesee advanced \$ 400,000 to the Genesee County Land Bank Authority for building operations in the first year and the Genesee Regional Chamber of Commerce has assumed the role of leasing agent for the property. Given the size of the building and the short time the Genesee County Land Bank has held the property it was anticipated that an operational loss would occur in the first few years. This is partially reflected in the deficit of (\$536,915) in unrestricted net assets for the current year.

The Genesee County Land Bank Authority's holds \$2,407,907 of Land Inventory, and while this represents a significant portion of current assets held, a corresponding amount in current liabilities of \$2,383,026 offsets the impact of these assets on the balance sheet.

The Genesee County Land Bank Authority's Net Assets

	Business-type Activities	
	2006	2005
Current and other assets	\$ 3,161,198	\$ 2,758,505
Capital assets	11,291,918	233,920
Total Assets	14,453,116	2,992,425
Current liabilities	3,322,890	2,737,555
Long-term liabilities	451,165	45,942
Total liabilities	3,774,055	2,783,497
Net assets		
Invested in capital assets, net of related debt	11,245,976	177,105
Unrestricted	(536,915)	31,823
Total net assets	\$ 10,709,061	\$ 208,928

The Genesee County Land Bank Authority's Change in Net Assets

	Business-type Activities	
	2006	2005
Operating:		
Revenues	\$ 1,483,285	\$ 1,151,793
Expenses	(5,458,082)	(3,405,962)
Total operating income	(3,974,797)	(2,254,169)
Non-operating		
Revenues	3,423,749	2,442,410
Expenses	(58,119)	(743)
Total non-operating Revenues (Expenses)	3,365,630	2,441,667
Income before capital contributions	(609,167)	187,498
Capital contributions	11,109,300	21,430
Increase in net assets	10,500,133	208,928
Net assets, September 30, 2005	208,928	-
Net assets, September 30, 2006	\$ 10,709,061	\$ 208,928

Financial Analysis of the Government's Funds

As noted earlier, the Genesee County Land Bank Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Capital Asset and Debt Administration

Capital assets. The Genesee County Land Bank Authority's investment in capital assets for its business-type activities as of September 30, 2006, amounts to \$ 11,291,918 (net of accumulated depreciation of \$ 316,001). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment.

Long-term debt. At the end of the current fiscal year, the Genesee County Land Bank Authority had total debt outstanding of \$451,165 (\$462,592 less current portion of \$ 11,427). The debt arose from vehicle leases and operating note payable entered into by the Authority as well as compensated absences payable.

Economic Factors and Next Year's Budgets

- The Genesee County Land Bank Authority relies on revenue streams provided through Genesee County Land Reutilization funds and sales of property held by the Genesee County Land Bank Authority.
- The Genesee County Land Bank Authority expects to see funding reductions from Genesee County over the next fiscal year, appropriate adjustments are expected to be made to service to absorb these cuts.
- Sales revenue from property is expected to continue at a comparative rate to the current fiscal year but a noticeable slowing of market conditions warrant watching these revenues over the course of the fiscal year and making adjustments as may be necessary.
- During the first quarter of the 2006/07 fiscal year the Genesee County Land Bank Authority will undergo a management review process conducted by an outside agency to review operational processes and to make recommendations for improvement to operations and customer services.
- Inflationary trends in the region will affect future expenditures .

All of these factors were considered in preparing the Genesee County Land Bank Authority's budget for the 2006/2007 fiscal year.

Request for Information

The financial report is designed to provide a general overview of the Genesee County Land Bank Authority's finances for all those with an interest in the authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Genesee County Land Bank Authority, 452 S. Saginaw St., 2nd floor, Flint, MI, 48502.

Genesee County Land Bank Authority
Statement of Net Assets
September 30, 2006 with Comparative Totals for 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 24,219	\$ 436,212
Due from Genesee County	142,760	195,053
Due from employees	-	671
Accounts receivable	82,246	7,708
Prepaid items	5,230	11,258
Current portion of land contract receivable	95,314	55,330
Land inventory	<u>2,407,907</u>	<u>1,878,460</u>
Total current assets	<u>2,757,676</u>	2,584,692
Noncurrent assets		
Land contract receivable (net of allowance of \$ 26,255 and \$ 0)	403,522	173,813
Capital assets		
Buildings and improvements	11,421,532	160,431
Maintenance equipment	30,705	19,855
Office equipment	87,133	36,165
Vehicles	68,549	68,549
Less: accumulated depreciation	<u>(316,001)</u>	<u>(51,080)</u>
Total noncurrent assets	<u>11,695,440</u>	<u>407,733</u>
Total assets	<u>14,453,116</u>	2,992,425
Liabilities		
Current liabilities		
Accounts payable	348,957	747,955
Deferred revenue	475,779	172,425
Rental deposits	3,750	-
Salaries and withholdings payable	13,917	8,988
Accrued expenses	553	880
Current portion of vehicle leases	11,427	10,873
Accrued interest	55,481	-
Due to Genesee County	<u>2,383,026</u>	<u>1,796,434</u>
Total current liabilities	<u>3,292,890</u>	2,737,555
Noncurrent liabilities		
Compensated absences	16,650	-
Vehicle leases	34,515	45,942
Due to Genesee County - operating note payable	<u>400,000</u>	-
Total noncurrent liabilities	<u>451,165</u>	45,942
Total liabilities	3,744,055	2,783,497
Net Assets		
Invested in capital assets, net of related debt	11,245,976	177,105
Unrestricted	<u>(536,915)</u>	<u>31,823</u>
Total net assets	<u>\$ 10,709,061</u>	<u>\$ 208,928</u>

Genesee County Land Bank Authority
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended September 30, 2006 with Comparative Totals for Ten Months Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Rental income	353,283	\$ 107,590
Sales	1,099,954	1,031,072
Interest on land contracts	27,260	9,566
Miscellaneous	<u>2,788</u>	<u>3,565</u>
Total operating revenue	<u>1,483,285</u>	<u>1,151,793</u>
Operating expenses		
Cost of land sold	662,338	343,902
Salaries and fringe benefits	520,868	256,561
Memberships	965	1,781
Training and education	8,171	10,022
Contractual employees	255,178	247,268
Supplies	31,500	15,517
Other services and charges	238,159	103,581
Demolition and abatement	1,947,303	1,445,047
Legal and professional fees	626,617	306,363
County services	21,916	18,515
Advertising	4,672	10,791
Insurance	34,549	41,567
Utilities and telephone	154,033	16,647
Repairs and maintenance	371,945	522,792
Rent	145,218	12,046
Depreciation	268,238	43,623
Capital outlay	139,336	9,602
Bad debt expense	26,255	-
Miscellaneous	<u>821</u>	<u>337</u>
Total operating expenses	<u>5,458,082</u>	<u>3,405,962</u>
Operating income (loss)	<u>(3,974,797)</u>	<u>(2,254,169)</u>

Genesee County Land Bank Authority
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended September 30, 2006 with Comparative Totals for Ten Months Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Nonoperating revenues and expenses		
Genesee County appropriation	\$ 889,193	\$ 740,112
Brownfield revenue	2,100,392	1,508,906
Operating grants	421,892	187,982
Interest income	12,272	5,410
Interest expense	<u>(58,119)</u>	<u>(743)</u>
Total nonoperating revenues (expense)	<u>3,365,630</u>	<u>2,441,667</u>
Income before capital contributions	(609,167)	187,498
Capital contributions	<u>11,109,300</u>	<u>21,430</u>
Net assets		
Change in net assets	10,500,133	208,928
Total net assets, beginning of period	<u>208,928</u>	<u>-</u>
Total net assets, end of period	<u><u>\$ 10,709,061</u></u>	<u><u>\$ 208,928</u></u>

Genesee County Land Bank Authority
Statements of Cash Flows

Year Ended September 30, 2006 and Ten Months Ended September 30, 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,419,903	\$ 1,073,362
Payments to suppliers and contractors	(4,977,875)	(2,459,486)
Payments to employees	(499,616)	(246,693)
Net cash used by operating activities	<u>(4,057,588)</u>	<u>(1,632,817)</u>
Cash Flows From Noncapital Financing Activities		
Operating note proceeds	400,000	-
Genesee County appropriation	889,193	740,112
Brownfield activities	2,114,579	1,403,956
Operating grants	459,998	97,879
Net cash provided by noncapital financing activities	<u>3,863,770</u>	<u>2,241,947</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(216,936)	(174,950)
Principal payments on capital leases	(10,873)	(2,635)
Interest paid on capital leases	(2,638)	(743)
Net cash used by capital and related financing activities	<u>(230,447)</u>	<u>(178,328)</u>
Net Cash Flows from Investing Activities		
Interest income	<u>12,272</u>	<u>5,410</u>
Net change in cash and cash equivalents	(411,993)	436,212
Cash and cash equivalents at beginning of period	<u>436,212</u>	<u>-</u>
Cash and cash equivalents at end of period	<u><u>\$ 24,219</u></u>	<u><u>\$ 436,212</u></u>

See Accompanying Notes to Financial Statements

Genesee County Land Bank Authority
Statements of Cash Flows
Year Ended September 30, 2006 and Ten Months Ended September 30, 2005

Reconciliation of Operating Income to Net cash

Provided by Operating Activities

Operating income	\$ (3,974,797)	\$ (2,254,169)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	268,238	43,623
Change in assets		
Due from employees	671	(671)
Accounts receivable	(74,538)	(7,708)
Prepaid expenses	6,028	(11,258)
Land contract receivable	(269,693)	(250,856)
Land inventory	(529,447)	(1,878,460)
Change in liabilities		
Accounts payable	(398,998)	747,956
Deferred revenue	303,354	172,425
Rental deposits	3,750	
Salaries and withholdings payable	4,929	8,987
Accrued expenses	(327)	880
Due to Genesee County	586,592	1,796,434
Compensated absences	16,650	-

Net cash used by operating activities

<u><u>\$ (4,057,588)</u></u>	<u><u>\$ (1,632,817)</u></u>
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Noncash investing, capital, and financing activities

Contributed real estate	<u><u>\$ 11,109,300</u></u>	<u><u>\$ -</u></u>
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See Accompanying Notes to Financial Statements

Genesee County Land Bank Authority
Notes to Financial Statements
September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Genesee County Land Bank Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the Authority's significant accounting policies:

Reporting Entity

The Genesee County Land Bank Authority is a public body corporate organized pursuant to the Michigan Land Bank Fast Track P.A. 258 and an Intergovernmental Agreement entered into between the Michigan Land Bank Fast Track Authority and the Treasurer of the County of Genesee, Michigan. The Authority was legally established on December 7, 2004 and began operations on that date. The Authority is comprised of seven members, as follows: Treasurer of Genesee County, one (1) resident of the City of Flint, appointed by the County board, one (1) resident of Genesee County not a resident of the City of Flint, appointed by the County board, four (4) residents of Genesee County, irrespective of municipality of residence, appointed by the County board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate component units of the Authority. The Authority has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Authority are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. The Authority has elected to apply all Financial Accounting Standards Board (FASB) statements issued after November 30, 1989 (unless they conflict with or contradict Governmental Accounting Standards Board pronouncements).

The Authority has one proprietary fund, which is an enterprise fund, used to account for the activities of the Authority consisting of sales of property to individuals, commercial entities and nonprofit organizations, rental of properties to individuals, rehabilitation and demolition of properties in preparation for sale or for future development.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods (in this instance property) in connection with a proprietary fund's

Genesee County Land Bank Authority
Notes to Financial Statements
September 30, 2006

principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for residential rental and for the sale of property. Operating expenses include the cost of properties sold, costs associated with demolition, administrative expenses, and depreciation on capital assets. All other revenues and expenditures are considered nonoperating.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Equity

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term deposits with a maturity of three months or less when acquired. Investments are reported at fair value based on quoted market prices.

Receivables and Payables – The fair value of short-term financial instruments such as accounts receivable and payable, accrued receivables, and accrued liabilities, is equal to the carrying amounts in the accompanying financial statements due to the short nature of such instruments.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the financial statements.

Land contract receivable – The Authority issues land contracts to individuals for the purchase of properties acquired by the Authority with varying terms and maturities with right of repossession. Because of the nature of the land contracts, the Authority recognizes revenues on the installment method. An allowance for uncollectible land contract receivables has been established to reflect the cost of foreclosure based on management's estimate of future foreclosures.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. Donated real estate is recorded at the state equalized value. The Authority defines capital assets as assets with an initial individual cost in excess of \$ 2,500. Repairs to rental homes in excess of \$ 1,000 are capitalized and amortized over a five-year period. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Authority does not have infrastructure assets. Leasehold improvements are amortized over the length of the lease. Furniture and equipment, maintenance equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Genesee County Land Bank Authority
Notes to Financial Statements
September 30, 2006

Buildings and building improvements	5-50 years
Maintenance equipment	5-20 years
Office equipment	5-10 years
Vehicles	5 years

Land Inventory – Foreclosed properties are offered to the Authority by the County to purchase prior to going to auction at the amount of the taxes due for each parcel. Foreclosed properties not sold at auction automatically revert to the Authority. The properties are inventoried at the amount of the taxes paid. The costs to rehabilitate a particular property that materially add value are added to the cost of that property. Parcels that are donated to the Authority are valued at \$ 1 as they have minimal value.

Deferred Revenue on Land Contracts – The Authority recognizes revenue for the sale of property with a land contract on the installment method. The deferred revenue represents the gross profit on the sales. The cost of the land has been removed from land inventory at the time of the land contract.

Due to Genesee County – This liability relates to the cost of parcels received from the County upon the creation of the Authority and for any funds received from the County in order to rehabilitate certain properties. When a parcel is sold, the cost of the parcel received from the County and any rehabilitation costs from borrowed funds are paid back to the County at that time.

Compensated Absences

The Authority's employees are granted annual leave based on length of service and part or full-time status. Employees may only carryover five unused annual leave days to the next calendar year. Vacation pay is fully vested when earned. Upon termination, employees are paid accumulated annual leave at current salary rates. Employees accrue sick/personal leave at a rate of 56 hours per year for full-time employees and prorated based on average hours worked for part-time employees. Employees accrue sick/personal leave on January 1st each year and accumulate without limit. However, no payment for accrued sick/personal leave is received upon termination. As of September 30, 2006 and September 30, 2005 accumulated leave time was \$ 16,650 and \$ 0, respectively .

Genesee County Land Bank Authority
Notes to Financial Statements
September 30, 2006

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Economic Dependency

The Authority receives approximately 69% of its revenues from Genesee County. Due to the significance of this revenue source, the Authority is considered to be economically dependent on Genesee County.

NOTE 2 - DEPOSITS AND INVESTMENTS

Credit risk – Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local government units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptances of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The board of directors adopted an investment policy that mirrors that of Genesee County which allows the Authority to invest in obligations of the U.S. Treasury, agencies and instrumentality's commercial paper rated A-2 by Standard & Poor's Corporation or P-2 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and reverse repurchase agreements. The Authority's deposit and investment policies are in accordance with statutory authority.

Concentration of credit risk – deposits – The board of directors authorized the Authority to deposit its' funds with Citizens Bank. The Federal Deposit Insurance Corporation (FDIC) provides protection of the Authority's deposits.

Genesee County Land Bank Authority
Notes to Financial Statements
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Custodial credit risk – deposits – This is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of September 30, 2006, \$ 92,455 of the Authority's bank balance of \$ 192,455 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the Authority for the years ended September 30, 2006 and 2005 are as follows:

	Balance September 30, 2005	Additions	Disposal and Adjustments	Balance September 30, 2006
Capital assets				
Buildings and improvements	\$ 160,431	\$ 11,277,688	\$ 16,587	\$ 11,421,532
Maintenance equipment	19,855	10,850		30,705
Office equipment	36,165	50,968		87,133
Vehicles	68,549			68,549
Subtotal	285,000	11,339,506	16,587	11,607,919
Accumulated depreciation				
Buildings and improvements	(28,987)	(234,376)	(3,317)	(260,046)
Maintenance equipment	(6,517)	(4,514)		(11,031)
Office equipment	(8,661)	(15,638)		(24,299)
Vehicles	(6,915)	(13,710)		(20,625)
Subtotal	(51,080)	(268,238)	(3,317)	(316,001)
Net capital assets	\$ 233,920	\$ 11,071,268	\$ 13,270	\$ 11,291,918

Genesee County Land Bank Authority
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	Balance September 30, 2004	Additions	Disposal and Adjustments	Balance September 30, 2005
Capital assets				
Buildings and improvements	\$ -	\$ 160,431		\$ 160,431
Maintenance equipment	-	19,855		19,855
Office equipment	-	36,165		36,165
Vehicles	-	68,549		68,549
	<u>-</u>	<u>285,000</u>	<u>-</u>	<u>285,000</u>
Subtotal	-	285,000	-	285,000
Accumulated depreciation				
Buildings and improvements	-	(28,987)		(28,987)
Maintenance equipment	-	(3,446)	3,071	(6,517)
Office equipment	-	(6,398)	2,263	(8,661)
Vehicles	-	(4,792)	2,123	(6,915)
	<u>-</u>	<u>(43,623)</u>	<u>7,457</u>	<u>(51,080)</u>
Subtotal	-	(43,623)	7,457	(51,080)
Net capital assets	<u>\$ -</u>	<u>\$ 241,377</u>	<u>\$ 7,457</u>	<u>\$ 233,920</u>

The amount for vehicles, above, includes \$ 59,449 and \$ 59,449 as of September 30, 2006 and 2005, respectively, for assets acquired under capital lease arrangements. Depreciation and amortization expense for the years ended September 30, 2006 and 2005 was \$ 268,238 and \$ 43,623, respectively. This amount includes \$ 11,890 and \$ 2,972 of amortization of capital leases on vehicles for September 30, 2006 and 2005.

Genesee County Land Bank Authority
Notes to Financial Statements
September 30, 2006

NOTE 4 - LONG-TERM DEBT

Long-term obligation activity for years ending September 30, 2006 and 2005 can be summarized as follows:

	Balance September 30, 2005	Additions	Reductions	Balance September 30, 2006	Within One Year
Compensated absences	\$ -	\$ 16,650	\$ -	\$ 16,650	\$ -
Vehicle leases	56,815	-	10,873	45,942	11,427
Operating note payable	-	400,000	-	400,000	-
	<u>\$ 56,815</u>	<u>\$ 416,650</u>	<u>\$ 10,873</u>	<u>\$ 462,592</u>	<u>\$ 11,427</u>

	Balance September 30, 2004	Additions	Reductions	Balance September 30, 2005	Within One Year
Vehicle leases	\$ -	\$ 59,449	\$ 2,634	\$ 56,815	\$ 10,873

Genesee County Land Bank Authority
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The Authority leased three vehicles from Genesee County for a period of five years payable quarterly in payments of \$ 3,378 until June 30, 2010. The annual requirement to pay principal and imputed interest at 5% on this obligation at September 30, 2006 is summarized as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 11,427	\$ 2,086	\$ 13,513
2008	12,009	1,503	13,512
2009	12,620	891	13,511
2010	<u>9,886</u>	<u>248</u>	<u>10,134</u>
Total debt payments	<u>\$ 45,942</u>	<u>\$ 4,728</u>	<u>\$ 50,670</u>

On August 1, 2006 the Authority signed a note for \$ 400,000 for the Great Lakes Technology Center Project from Genesee County with the proceeds to be used for the operation of the building. The principal and interest amounts are due April 1, 2009. Interest is accrued and adjusted monthly on the first day of the month at a rate equal to the average three-month U. S. Treasury Bills at the last United States Department of Treasury auction held in the month immediately preceding such month. As of September 30, 2006, the rate was 4.97%.

Genesee County Land Bank Authority
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NOTE 5 - OPERATING LEASES

As of October 1, 2005, the Authority began leasing space for its offices from Genesee County. In lieu of rent, the Authority will be paying the debt service payments on the bonds sold and used for the renovation of the building at 452 S. Saginaw Street, Flint, Michigan, which previously belonged to the Authority. The debt service requirements of the County are as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2007	\$ 147,367
2008	145,617
2009	143,867
2010	142,117
2011	145,367
2012-2016	725,288
2017-2021	722,193
2022-2026	734,530
2027-2031	736,625
2032-2034	<u>440,885</u>
Total debt payments	<u>\$ 4,083,856</u>

Genesee County Land Bank Authority
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September 30, 2006

NOTE 6 - LEASES ON THE LESSOR'S BOOKS

The Authority has entered into contracts with various lessees for the rental of commercial and residential real estate. The obligation of the lessees to the Authority for the next 5 years is as follows:

Payments Receivable In	Guaranteed Lease Payment
2007	\$ 248,919
2008	176,010
2009	173,730
2010	178,092
2011	68,464
Total	<u>\$ 845,215</u>

Minimum future rentals do not include month to month and are considered contingent rentals. Contingent rentals amounted to approximately \$ 188,002 and \$ 107,590 for 2006 and 2005, respectively.

NOTE 7 - DEFERRED COMPENSATION

The Authority offers its employees a deferred compensation plan created in accordance with IRC Section 457A. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Section 457A Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the sole benefit of the employees. The assets are not subject to the claims of the employer's general creditors.

Participants' rights created under the plan are limited to the fair market value of the deferred account maintained with respect to each participant.

Genesee County Land Bank Authority
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NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN

Plan Description

The Authority is the plan sponsor for a defined contribution retirement plan which provides retirement benefits for all Authority employees. The Authority is a member of the Municipal Employees Retirement System of Michigan's defined contribution program. The plan is administered by the International City Management Association Retirement Corporation (ICMARC).

Funding Policy

Participating employees are required to contribute 5% of their salary to the plan while the Authority contributes 10% of the employees' salary. Participants are fully vested after three (3) years of service and are entitled to one hundred percent of vested contributions. The plan is a money purchase plan qualified under Section 401 of the Internal Revenue Code.

Annual Pension Cost

Employer contributions during 2006 were 10% of the employees' salaries of \$ 362,956 and totaled \$ 36,296. Employees contributed the required 5% or \$ 18,148.

Employer contributions during 2005 were 10% of the employees' salaries of \$ 90,544 and totaled \$ 9,054. Employees contributed the required 5% or \$ 4,527.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors, and omissions, and employee injuries. The Authority has purchased insurance for these claims. Settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - PROMISSORY NOTE

On September 5, 2006, the Authority entered into a revolving loan agreement with the Michigan Department of Environmental Quality. The Authority has up to \$ 376,000 available to borrow at a rate of 2% which has a 15-year payoff period from the loan date. As of September 30, 2006, the Authority has not borrowed against this loan.



4468 Oak Bridge Drive
Flint, MI 48532
Phone (810) 732-3000 / (800) 899-4742
Fax (810) 732-6118

December 15, 2006

To the Board of Directors
Genesee County Land Bank Authority

We have audited the financial statements of the Genesee County Land Bank Authority for the year ended September 30, 2006, and have issued our report thereon dated December 15, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 7, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Genesee County Land Bank Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Genesee County Land Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by the Genesee County Land Bank Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Genesee County Land Bank Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Genesee County Land Bank Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Genesee County Land Bank Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting



principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Genesee County Land Bank Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

Reconciliations of various accounts such as land inventory, sales, and cost of goods sold were not accurately prepared in advance of our field work. This is the result of the aforementioned accounts not being reconciled on a frequent basis throughout the year. Other work papers that were requested were not prepared as well. Both situations caused additional work for the audit staff and a delay in finalizing the audit.

Comments and Recommendations

There is a lack of segregation of duties in the accounts receivable function. The person responsible for invoicing has custody of assets as well as the record keeping function i.e. general ledger function. This is due to the fact that there aren't enough staff members in the accounting department. A person other than the individual recording the receipts and the person responsible for invoicing and accounts receivable reconciliation handle the deposits i.e. custody of assets.

Accounts payable open invoices needs to be reconciled to the general ledger on a monthly basis. We found that accounts payable was reconciled only at year end. An invoice outstanding from the prior year was still outstanding at the current year end. Reconciling more frequently would lessen the chance of this happening in the future.

We recommend that the Director of Finance sign off on the bank reconciliations and payroll journals to note the review of the same.


We noted in the review of the payroll process that timesheets are not always turned in on a timely basis, generally, after the preparation of the payroll. While employees are salaried employees, meaning the pay doesn't necessarily vary, this could create a problem in accurately recording the amount of sick or vacation time taken. Also, all timesheets should be signed by the Director of Finance noting approval and review.

All balance sheet accounts should be reconciled on a monthly basis. Sales, Cost of Sales, Land Contract Receivables, and Land Inventory should be reconciled no less frequently than quarterly.

This information is intended solely for the use of the Board of Directors and management of the Genesee County Land Bank Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Yeo & Yeo, PC
CPAs and Business Consultants

By 
Jane M. Johnson, CPA